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October 28, 2014

Board of Directors
Area Five Agency on Aging & Community Services, Inc.
1801 Smith Street
Logansport, IN 46947

We have reviewed the audit report prepared by Crowe Horwath LLP, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Area Five Agency on Aging & Community Services, Inc., as of December 31, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

**AREA FIVE AGENCY ON AGING
AND COMMUNITY SERVICES, INC.**

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
Logansport, Indiana

FINANCIAL STATEMENTS
December 31, 2012 and 2011

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	5
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	20
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	22
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON THE INTERNAL CONTROL OVER COMPLIANCE.....	24
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS.....	27



Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Area Five Agency on Aging and Community Services, Inc.
Logansport, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Area Five Agency on Aging and Community Services, Inc. and subsidiaries (Area Five), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Area Five Agency on Aging and Community Services, Inc. as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2013 on our consideration of Area Five's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Area Five's internal control over financial reporting and compliance.

Crowe Horwath LLP
Crowe Horwath LLP

Indianapolis, Indiana
July 16, 2013

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash	\$ 107,063	\$ 82,263
Grants receivable	1,124,675	1,074,845
Accounts receivable	<u>64,548</u>	<u>108,392</u>
Total current assets	1,296,286	1,265,500
Non-current assets		
Investments (Note 4)	1,000	1,000
Development fees receivable, net (Note 3)	-	-
Loans receivable, net (Note 3)	2,203,376	2,022,347
Property and equipment, net (Note 5)	<u>2,951,034</u>	<u>3,148,778</u>
Total non-current assets	<u>4,954,637</u>	<u>5,172,125</u>
	<u>\$ 6,451,696</u>	<u>\$ 6,437,625</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 413,864	\$ 500,688
Accrued payroll, vacation and withholdings	468,542	467,457
Other liabilities	93,461	45,262
Bonds payable – current portion (Note 6)	60,711	57,066
Notes payable and lines of credit – current portion (Note 7)	<u>728,225</u>	<u>451,073</u>
Total current liabilities	1,764,803	1,521,546
Non-current liabilities		
Other liabilities	36,000	48,000
Bonds payable (Note 6)	316,898	377,610
Notes payable (Note 7)	<u>2,051,549</u>	<u>2,175,705</u>
Total non-current liabilities	<u>2,404,447</u>	<u>2,601,315</u>
Total liabilities	4,169,250	4,122,861
Net assets		
Unrestricted	10,440	243,531
Unrestricted - board designated (Note 9)	<u>2,272,006</u>	<u>2,071,233</u>
Total net assets	<u>2,282,446</u>	<u>2,314,764</u>
	<u>\$ 6,451,696</u>	<u>\$ 6,437,625</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUE		
Grant assistance	\$ 7,358,767	\$ 7,247,700
Program income	81,983	73,714
Local grant assistance and program support	170,736	170,007
Service fee income	23,580	9,686
Investment income	127,322	138,291
Rental income	223,145	228,941
Other income	<u>58,328</u>	<u>40,275</u>
Total revenue	<u>8,043,861</u>	<u>7,908,614</u>
EXPENSES		
Program services:		
In-home services	3,084,097	3,003,382
Community services	1,638,378	1,982,451
Energy assistance	296,658	521,073
HeadStart	1,548,800	1,528,264
Weatherization	1,006,765	560,512
Housing	<u>125,206</u>	<u>93,295</u>
Total program service expenses	7,699,904	7,688,977
Management and general	<u>453,258</u>	<u>419,275</u>
Total expenses	<u>8,153,162</u>	<u>8,108,252</u>
Change in net assets before loss on impairment	(109,301)	(199,638)
Recovery (loss) on impairment of loans and development fees receivable (Note 3)	<u>76,983</u>	<u>(338,831)</u>
Change in net assets	(32,318)	(538,469)
Net assets at beginning of year	<u>2,314,764</u>	<u>2,853,233</u>
Net assets at end of year	<u>\$ 2,282,446</u>	<u>\$ 2,314,764</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 Year ended December 31, 2012

	Program Services							Total	
	In-Home Services	Community Services	Energy Assistance	HeadStart	Weather- ization	Housing	Program Services		Management & General
Salaries and benefits	\$ 1,529,348	\$ 1,393,706	\$ 238,595	\$ 1,100,149	\$ 297,483	\$ 39,995	\$ 4,599,276	\$ 125,922	\$ 4,725,198
Occupancy	28,943	42,531	4,022	32,281	2,768	2,907	113,452	21,806	135,258
Depreciation	25,857	22,558	3,824	27,362	2,154	9,752	91,507	106,237	197,744
Interest expense	13,718	10,665	841	19,103	342	14,362	59,031	133,451	192,482
Telephone/postage	13,595	17,996	11,259	6,404	5,059	588	54,901	2,735	57,636
Contracted services	1,023,857	12,840	3,796	18,260	548,517	25,171	1,632,441	5,392	1,637,833
Food costs	263,921	-	-	103,524	-	-	367,445	93	367,538
Materials/supplies	58,158	30,529	9,374	87,601	119,325	4,499	309,486	15,190	324,676
Travel	51,945	55,140	2,455	56,786	11,568	778	178,672	(10,890)	167,782
Miscellaneous	59,455	44,234	14,169	66,948	11,151	17,633	213,590	38,006	251,596
Legal	1,532	1,003	156	618	313	148	3,770	2,563	6,333
Maintenance	4,221	2,996	892	18,730	276	7,215	34,330	3,698	38,028
Insurance	9,547	4,180	1,340	11,034	6,854	2,158	35,113	9,055	44,168
Specific assistance	-	-	5,935	-	955	-	6,890	-	6,890
	<u>\$ 3,084,097</u>	<u>\$ 1,638,378</u>	<u>\$ 296,658</u>	<u>\$ 1,548,800</u>	<u>\$ 1,006,765</u>	<u>\$ 125,206</u>	<u>\$ 7,699,904</u>	<u>\$ 453,258</u>	<u>\$ 8,153,162</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2011

	Program Services								
	In-Home Services	Community Services	Energy Assistance	HeadStart	Weather- ization	Housing	Program Services	Management & General	Total Expenses
Salaries and benefits	\$ 1,380,747	\$ 1,651,859	\$ 364,170	\$ 1,098,974	\$ 245,023	\$ 33,780	\$ 4,774,553	\$ 30,849	\$ 4,805,402
Occupancy	29,681	52,259	6,752	37,935	1,653	2,245	130,525	21,437	151,962
Depreciation	26,676	25,584	3,924	27,897	2,178	9,947	96,206	106,407	202,613
Interest expense	14,417	11,496	878	19,732	436	15,027	61,986	130,545	192,531
Telephone/postage	17,216	30,966	11,951	7,070	4,803	643	72,649	3,339	75,988
Contracted services	1,119,141	32,173	3,175	20,933	219,908	3,011	1,398,341	4,508	1,402,849
Food costs	240,870	-	-	79,995	-	-	320,865	3,728	324,593
Materials/supplies	58,363	38,086	91,660	92,561	63,286	12,141	356,097	22,085	378,182
Equipment	-	-	-	-	5,400	-	5,400	-	5,400
Travel	49,515	59,501	4,755	47,859	511	1,476	163,617	(7,041)	156,576
Miscellaneous	52,495	68,389	22,603	71,196	9,961	12,643	237,287	86,226	323,513
Legal	794	2,079	231	2,170	515	219	6,008	805	6,813
Maintenance	3,802	3,346	1,221	9,927	362	(501)	18,157	3,788	21,945
Insurance	9,665	6,713	1,123	12,015	6,450	2,665	38,631	12,599	51,230
Specific assistance	-	-	8,630	-	25	-	8,655	-	8,655
	<u>\$ 3,003,382</u>	<u>\$ 1,982,451</u>	<u>\$ 521,073</u>	<u>\$ 1,528,264</u>	<u>\$ 560,511</u>	<u>\$ 93,296</u>	<u>\$ 7,688,977</u>	<u>\$ 419,275</u>	<u>\$ 8,108,252</u>

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (32,318)	\$ (538,469)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	197,744	202,613
Loss on investment	-	700
(Recovery) loss on impairment of loan and development fees receivable	(76,983)	338,831
Changes in assets and liabilities:		
Grants receivable	(49,830)	118,659
Accounts receivable	43,844	19,236
Accrued interest receivable	(123,306)	(132,190)
Accounts payable	(86,824)	13,885
Self-insurance reserve	-	(109,700)
Accrued payroll, vacation and withholdings	1,085	(77,979)
Other liabilities	<u>36,199</u>	<u>62,830</u>
Net cash from operating activities	<u>(90,389)</u>	<u>(101,584)</u>
Cash flows from investing activities		
Principal payments received on loans receivable	46,260	35,103
New loans made	<u>(27,000)</u>	<u>(20,695)</u>
Net cash from investing activities	<u>19,260</u>	<u>14,408</u>
Cash flows from financing activities		
Proceeds from issuance of notes payable and draws on line of credit	2,260,018	1,813,359
Principal payments on notes payable and line of credit	(2,107,022)	(1,620,470)
Principal payments on bonds payable	<u>(57,067)</u>	<u>(54,728)</u>
Net cash from financing activities	<u>95,929</u>	<u>138,341</u>
 Net change in cash	 24,800	 51,165
Cash at beginning of year	<u>82,263</u>	<u>31,098</u>
Cash at end of year	<u>\$ 107,063</u>	<u>\$ 82,263</u>
 Supplemental disclosures of cash flow information		
Interest paid	\$ 192,483	\$ 192,531

See accompanying notes to consolidated financial statements.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The consolidated financial statements include the accounts of Area Five Agency on Aging and Community Services, Inc. (Area Five) and its wholly owned subsidiaries, Dependable Dental Solutions, LLC (DDS) and Construction Management Associates, LLC (CMA). The mission of Area Five is to meet the needs of the elderly, disabled, and disadvantaged members of the communities served. Area Five provides services to eligible residents of Cass, Fulton, Howard, Miami, Tipton, and Wabash counties in the State of Indiana. Area Five administers various programs funded by the Federal government and the State of Indiana that are used to provide for planning and development of programs that intervene at critical points in poverty and the aging process and that will enable families and individuals to become more self-sufficient. CMA is a construction management company, and DDS is a dental practice that was formed to serve Area Five clients.

Area Five, DDS, and CMA have been consolidated for this financial statement presentation. The consolidated financial statements have been prepared on the accrual basis of accounting wherein revenues and expenses are recognized in the period earned and incurred, respectively. In 2006, DDS ceased operations and in 2007, DDS liquidated its remaining assets and paid off its capital lease liability. In 2008, CMA ceased operations and had liquidated most of its assets as of December 31, 2009. Both entities legally exist with minimal assets and liabilities at both December 31, 2012 and 2011.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Areas where significant estimates are used in the accompanying financial statements include the allowance for uncollectible loans and development fees receivable, allocation of expenses, and the self-insurance reserve liability. Actual results could differ from those estimates.

Income Taxes: Area Five is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not considered to be a private foundation. However, Area Five may be subject to income taxes on certain types of unrelated business income. CMA and DDS, Area Five's wholly-owned subsidiaries, are single member limited liability companies that have elected to be taxed as corporations. The amount of taxes paid by Area Five, CMA and DDS is not material to the financial statements.

Current accounting standards require Area Five to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the years ended December 31, 2012 and 2011, management has determined that Area Five does not have any tax positions that result in any uncertainties regarding the possible impact on Area Five's financial statements. Area Five does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Area Five is generally no longer subject to examination by taxing authorities for years before 2009.

Area Five recognizes interest and/or penalties related to income tax matters in income tax expense. Area Five did not have any amounts accrued for interest and penalties at December 31, 2012 and 2011.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash: Cash consists of bank deposits in accounts that are federally insured up to \$250,000 per financial institution. At times throughout the year, Area Five held cash in excess of the federally insured limit.

Grants, Accounts and Development Fees Receivable: Area Five's grants receivable, accounts receivable and development fees receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Interest is not charged on accounts receivable, grants receivable or development fees receivable.

Allowance for Doubtful Accounts: The allowance for uncollectible accounts is determined by management based upon each entity's historical losses, specific circumstances and general economic conditions. Periodically, management reviews accounts, grants and development fees receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with their collection policy. At December 31, 2012 and 2011, management estimated the allowance as \$507,286 in relation to the development fees receivable.

Investments: Investments include shares of partnership interests in various limited partnerships. Area Five wholly owns the corporations that are the general partners of the limited partnerships, but do not have a controlling interest in the partnership. Area Five reports these investments at cost.

Loans Receivable: Loans receivable include loan agreements on qualifying tax credit projects, which are owned by a partnership, with Area Five as the general partner. The tax credit projects support the development of low-income and elderly housing. Terms and interest rates of the loans vary, but the principal and accrued interest is due at the end of the tax credit project with planned payment in the form of a property transfer.

An allowance for loan impairment is considered by management by examining the underlying tax credit project fair value using property appraisals. Management's policy is that all loans, including impaired loans, shall accrue interest. Each year management will estimate whether that interest is collectible.

Property and Equipment: Property and equipment purchased at \$5,000 and greater are capitalized at cost, except for donated items, which are recorded at fair value at its donation date. Depreciation is computed using the straight-line method over the estimated useful lives, which may range from three to thirty years. Buildings and equipment acquired with government grants have been expensed as purchased, due to the reversionary interest that is maintained by the grantor. If applicable, upon expiration of the grantor's reversionary interest period, property and equipment are recorded at fair value as of the expiration date and then depreciated over the remaining useful life.

Impairment of Long-Lived Assets: In accordance with GAAP, Area Five reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2012 and 2011.

Accounts Payable: Area Five's accounts payable balance includes amounts due to various vendors for the provision of grant funded services to clients. The payables may exist due to time lags between the dates of service and reimbursement of grant funds to Area Five by the grantor. Amounts due for non-grant funded goods and services purchased by Area Five are also included in accounts payable.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Net Asset Classifications: The consolidated financial statements have been prepared in accordance with GAAP, which requires, among other things, that the consolidated financial statements report the changes in and total of each of the net asset classes based upon the donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted.

The following classes of net assets are maintained:

Unrestricted Net Assets - The unrestricted net asset class includes general and board designated assets. See detail of board designations at Note 9. The unrestricted, undesignated net assets may be used at the discretion of management to support Area Five's purposes and operations.

Temporarily Restricted Net Assets - The temporarily restricted net asset class includes assets of Area Five related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. There were no temporarily restricted net assets reported by management at December 31, 2012 and 2011.

Permanently Restricted Net Assets - The permanently restricted net asset class includes assets of Area Five for which the donor has stipulated that the contribution be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. There were no permanently restricted net assets reported by management at December 31, 2012 and 2011.

Functional Expenses: Expenses are allocated directly or indirectly to various program and supporting services in the consolidated statement of functional expenses. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural classification. All remaining costs are allocated using both statistical and non-statistical allocation methodologies.

Government Grants: Support funded by grants is recognized as Area Five performs the contracted services under grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of Area Five's grant agreements are fee-for-service in nature, and support is recognized when earned. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions: Contributions are recorded when an unconditional promise to give is made. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and nature of donors' restrictions. Temporarily restricted contributions whose restriction is fulfilled in the same year as the contribution are reported as unrestricted. There were no outstanding unconditional promises reported by management as of December 31, 2012 and 2011.

Donated Services and In-Kind Contributions: Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time in relation to Area Five's program services; however, these services did not meet the above criteria for reporting in the accompanying financial statements. For purposes of applicable grant matching requirements, Area Five has valued these contributed services at \$493,474 and \$620,980 for the years ended December 31, 2012 and 2011.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2012, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended December 31, 2012. Management has performed their analysis through July 16, 2013, the date the financial statements were available to be issued.

In 2013, the Board of Directors approved the release of the \$150,000 designation for future improvements. This will increase the unrestricted, undesignated net assets by this amount and decrease the unrestricted, designated net assets by the same amount.

NOTE 2 - GOVERNMENT GRANT ACTIVITIES

Area Five receives a majority of its federal and state grant funds through three third parties, the Indiana Family and Social Services Administration (FSSA), the Indiana Housing and Community Development Authority and the United States Department of Health and Human Services, by submitting claims to the third parties for approval and payment. Area Five depends significantly on these third parties for funding to carry out its program activities.

The grant amounts are appropriated each year by federal and state agencies. If significant budget cuts are made at the federal and state level, the amount of funds that Area Five receives could be reduced significantly and have an impact on its operations.

In 2012 and 2011, Area Five used certain FSSA funds received under Title III-B to issue its own contracts to sub-grantees and service providers. Although the expenditures made and units of service performed by these sub-grantees and service providers are certified as bona fide, documentation of the purpose of such expenditures and units of service performed are subject to audit and review by funding sources. Some of the contracts include a local cost sharing provision similar to those which apply to contracts awarded to Area Five.

Area Five could become liable for any funds required to be returned to the federal or state agency issuing the contract if a sub-grantee or service provider is unable to adequately document expenditures, substantiate its local cost sharing requirement, document the units of services performed, or if they are unable to refund any unearned federal funds. As of December 31, 2012 and 2011, the amounts payable to state agencies was \$48,000 and \$59,000, respectively.

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS AND DEVELOPMENT FEES RECEIVABLE

Area Five has received grant funds for the following loan programs:

- Home Investment Partnerships Program
- Affordable Housing Program (AHP)
- Small Business Incubator (SBI)

The loan programs support the development of low-income and elderly housing, as well as the development of small businesses in the community. Loans receivable, including accrued interest at December 31, 2012 and 2011, are due from the following:

	<u>2012</u>	<u>2011</u>
Logansport Housing Associates LP	\$ 1,449,250	\$ 1,414,000
Chase Crossing LP	1,642,758	1,588,518
Hilltop Farms LP (Phase 2)	1,029,380	995,080
Various SBI and other loans	<u>81,371</u>	<u>101,115</u>
	4,202,759	4,098,713
Allowance for impaired loans	<u>(1,999,383)</u>	<u>(2,076,366)</u>
	<u>\$ 2,203,376</u>	<u>\$ 2,022,347</u>

The loans earn interest at annual rates that range between 1% and 6.8% and all loans are accruing interest for the years ended December 31, 2012 and 2011. Several of these loans receivable are related to tax credit housing projects, and the amounts are payable to Area Five at the end of the tax credit project periods, with original terms up to 15 years and maturity dates between 2013 and 2017. Payments may be in the form of cash payments or a transfer of assets at the end of the tax credit project.

Area Five also has development fees receivable from the limited partnerships. As of December 31, 2012 and 2011, Area Five had net development fee receivables of \$0. The allowance for the estimated uncollectible portion of these receivables was \$507,286 as of December 31, 2012 and 2011. Development fees do not earn interest.

Information on impaired loans and development fees is summarized below:

	<u>2012</u>	<u>2011</u>
Impaired loans and development fees with an allowance	<u>\$ 4,628,674</u>	<u>\$ 4,504,884</u>
Allowance for impaired loans and development fees	<u>\$ 2,707,442</u>	<u>\$ 2,583,652</u>
Average impaired loans	\$ 2,314,337	\$ 2,252,442
Interest income on impaired loans, fully reserved as part of allowance for impaired loans	123,790	132,190
Recovery on impaired loans	200,773	-
Impaired loans written off	-	389,357

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2012 and 2011

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Area Five owns 75 \$10 par value shares (75%) of Community Investments, Inc. Community Investments, Inc. is a 1% general partner in Logansport Housing Associates Limited Partnership (Bend in the Woods Estates) and Chase Crossing Limited Partnership.	\$ 750	\$ 750
Area Five owns 25 \$10 par value shares (25%) of Manchester Development Corporation. Manchester Development Corporation is a 1% general partner in Fellowship Apartments Limited Partnership.	250	250
Area Five owns 100 \$0 par value shares (100%) of Miami Development Corporation. Miami Development Corporation is a 1% general partner in Hilltop Farms Phase Two Limited Partnership.	-	-
	<u>\$ 1,000</u>	<u>\$ 1,000</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment of Area Five consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 177,028	\$ 177,028
Building	4,503,589	4,503,589
Building improvements	490,843	490,843
Rental buildings	345,496	345,496
Modular classroom	44,647	44,647
Equipment	<u>185,669</u>	<u>185,669</u>
	5,747,272	5,747,272
Accumulated depreciation	<u>(2,796,238)</u>	<u>(2,598,494)</u>
	<u>\$ 2,951,034</u>	<u>\$ 3,148,778</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2012 and 2011

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

Area Five owns facilities and equipment that were purchased or built using federal grant funds. For financial statement purposes, the grant-funded portion of the facility's or equipment's cost is not capitalized until any reversionary interest of the grantor has expired. Facilities and equipment with reversionary interest remaining at December 31, 2012 and 2011 include:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Grant-funded Portion</u>	<u>Cost</u>	<u>Grant-funded Portion</u>
Headstart School (indefinite)	\$ 184,077	\$ 100,000	\$ 184,077	\$ 100,000
Vehicles	311,656	311,656	311,656	311,656
Equipment	<u>55,310</u>	<u>55,310</u>	<u>55,310</u>	<u>55,310</u>
Total	<u>\$ 551,043</u>	<u>\$ 466,966</u>	<u>\$ 551,043</u>	<u>\$ 466,966</u>

NOTE 6 - BONDS PAYABLE

Area Five constructed their own Human Services Building in 1993. Area Five issued two series of bonds totaling \$1,100,000 (Series 1993 A and 1993 B) to pay for the majority of the construction costs. The Series 1993 B bonds were retired in 2002. Series 1993 A bonds are described below:

- \$850,000 of Series 1993 A City of Logansport, Indiana Economic Development Revenue Bonds with a maturity date of May 1, 2018 and an annual interest rate equal to 80% of the one year Treasury Bill plus a margin of 250 basis points rounded to the nearest .0125%. For 2012 and 2011, the interest expense paid on Series 1993 A Bonds was \$11,017 and \$12,086. The balance of the Series 1993 A bonds payable as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Original bonds issued	\$ 850,000	\$ 850,000
Principal payments	<u>(472,391)</u>	<u>(415,324)</u>
	377,609	434,676
Less: Current portion	<u>(60,711)</u>	<u>(57,066)</u>
	<u>\$ 316,898</u>	<u>\$ 377,610</u>

The future maturities of bonds payable are as follows:

2013	\$ 60,711
2014	64,509
2015	68,544
2016	72,802
2017	77,386
Thereafter	<u>33,657</u>
	<u>\$ 377,609</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 - NOTES PAYABLE AND LINES OF CREDIT

Area Five has the following notes payable as of December 31:

	<u>2012</u>	<u>2011</u>
Five year note payable with Security Federal Savings Bank in the amount of \$550,000 with an interest rate of 7.53% per annum. Monthly interest-only payments were required until December 20, 2008, when monthly principal and interest payments of \$5,108 began. A balloon payment of approximately \$430,000 is due on January 2024. The note is secured by properties at Kokomo, Wabash and Logansport, Indiana as well as all other Area Five assets.	\$ 458,795	\$ 483,587
Fifteen year mortgage with First National Bank of Monterey in the amount of \$766,581 with an interest rate of 7.00% per annum. Monthly principal and interest payments vary according to the interest rate and the maturity of the loan is July 2018. The mortgage is secured by property located at 661 East Main Street in Peru, Indiana.	394,401	440,257
Twenty five year mortgage refinanced in September 2010 with Security Federal Savings Bank in the amount of \$908,000 with a variable interest rate of 6.50% per annum. The refinancing included the outstanding balance, payoff of a line of credit with a balance of \$246,110 and additional borrowings of \$307,155. Monthly principal and interest payments are \$6,137, and the maturity of the loan is October 2035. The mortgage is secured by a facility located at 105 Olive Street in Wabash, Indiana.	873,979	888,951
Thirty year mortgage with Security Federal Savings Bank in the amount of \$75,000 with an interest rate of 7.50% per annum. Monthly principal and interest payments are \$524, and the maturity of the loan is September 2025. The mortgage is secured by a single family home located at 92 Central Avenue in Logansport, Indiana.	51,365	53,709
Thirty year mortgage with Security Federal Savings Bank in the amount of \$60,000 with an interest rate of 6.75% per annum. Monthly principal and interest payments are \$433, and the maturity of the loan is July 2023. The mortgage is secured by a duplex located at 91/95 Central Avenue in Logansport, Indiana.	39,028	41,494
Twenty year mortgage with Security Federal Savings Bank in the amount of \$72,300 with an interest rate of 7.125% per annum. Monthly principal and interest payments are \$563, and the maturity of the loan is July 2021. The mortgage is secured by the duplex located at 70/72 Central Avenue in Logansport, Indiana.	43,300	46,835

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 - NOTES PAYABLE AND LINES OF CREDIT (Continued)

	<u>2012</u>	<u>2011</u>
Fifteen year mortgage with Security Federal Savings Bank in the amount of \$280,000 with an interest rate of 6.75% per annum. Monthly principal and interest payments are \$2,478, and the maturity of the loan is March 2017. The mortgage is secured by the building located at 111 East Sycamore Street in Kokomo, Indiana.	\$ 109,589	\$ 131,267
Thirty year mortgage with Security Federal Savings Bank in the amount of \$70,734 with an interest rate of 7.00% per annum. Monthly principal and interest payments are \$469, and the maturity of the loan is November 2032. The mortgage is secured by the duplex located at 71173 Central Avenue in Logansport, Indiana.	60,423	61,774
Construction loan with Security Federal Savings Bank for up to \$100,000 with an interest rate of 4.75% per annum. The note was converted to a term loan in February 2010 and was refinanced during 2011. The note is due March 2031 with an interest rate floor of 6.50%. Scheduled rate changes will occur every 60 months based on the 5-year T-Bill rate plus 450 basis points. The note is secured by the property at 1106 West Mulberry Street in Kokomo, Indiana.	62,723	64,356
Construction loan that was converted in 2009 to a fifteen year mortgage with First National Bank of Monterey in the amount of \$120,000 with an interest rate of 6.00% per annum. Monthly principal and interest payments vary according to the interest rate, and the maturity of the loan is February 2022. The note is secured by the property at 661 East Main Street in Peru, Indiana.	91,590	97,040
Line of credit agreement with Security Federal Savings Bank with a \$500,000 credit limit. The interest rate is variable and was 5.25% at December 31, 2012 and accrues monthly. The line matures in July 2013 and is secured by the assets of Area Five.	500,000	317,508
Line of credit agreement with Security Federal Savings Bank with a \$175,000 credit limit. The interest rate is variable and was 5.25% at December 31, 2012 and accrues monthly. The line matures in July 2013 and is secured by the assets of Area Five.	<u>94,581</u>	<u>-</u>
	2,779,774	2,626,778
Less: Current portion	<u>(728,225)</u>	<u>(451,073)</u>
	<u>\$ 2,051,549</u>	<u>\$ 2,175,705</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 - NOTES PAYABLE AND LINES OF CREDIT (Continued)

The total interest expense paid on all notes payable for the years 2012 and 2011 was \$181,466 and \$177,773, respectively. The future maturities of notes payable are as follows:

2013	\$ 728,225
2014	144,395
2015	156,027
2016	168,370
2017	159,405
Thereafter	<u>1,423,352</u>
	<u>\$ 2,779,774</u>

NOTE 8 - OPERATING LEASES

Area Five is the lessee in operating lease agreements for office space in North Manchester, Akron, Wabash, and Rochester, Indiana. The leases expire at various dates from 2013 to 2015. Area Five also leases various office equipment. These leases expire from 2013 to 2016. Lease expense for the years ended December 31, 2012 and 2011 was \$31,816 and \$40,732, respectively. As of December 31, 2012, future minimum rental payments required under the operating leases are as follows:

2013	\$ 31,827
2014	17,144
2015	5,962
2016	<u>270</u>
	<u>\$ 55,203</u>

Area Five is the lessor in operating lease agreements for office space located in Kokomo, Logansport, and Peru and of housing duplexes located in Logansport. The carrying value of these properties at December 31, 2012 and 2011 is \$3,676,179, with related accumulated depreciation of \$2,056,786 and \$1,922,177. The leases expire from 2013 to 2015. The future minimum rental receipts required under the leases are as follows:

2013	\$ 67,626
2014	10,615
2015	<u>3,750</u>
	<u>\$ 81,991</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 - BOARD DESIGNATED NET ASSETS

Area Five's Board of Directors has designated a portion of Area Five's unrestricted net assets for the following purposes:

	<u>2012</u>	<u>2011</u>
Net loans receivable under the Home Investment Partnerships and Affordable Housing Programs, and development fee receivable from Logansport Housing Associates	\$ 2,122,006	\$ 1,921,233
Future improvements to the Logansport, Peru and Wabash facilities	<u>150,000</u>	<u>150,000</u>
	<u>\$ 2,272,006</u>	<u>\$ 2,071,233</u>

NOTE 10 - RETIREMENT PLAN

Area Five has a defined contribution plan where all employees are eligible once they have at least two years of service of 1,000 hours each year. Area Five contributes 4% of the employees' gross earnings. For the year ended December 31, 2012 and 2011, Area Five contributed \$117,560 and \$152,711 to the plan.

NOTE 11 - SELF-INSURANCE PROGRAM

Area Five had a partially self-funded insurance plan for employee group medical insurance through March 31, 2011. This policy limited Area Five's maximum plan cost to a monthly set-aside amount per employee. Area Five's portion of the predetermined funding provision was charged to expense each month. A reinsurance policy was in place to limit the maximum claim liability to \$60,000 per covered individual, except for in special circumstances in which an individual may have been lasered in at a higher exposure amount. On April 1, 2011, Area Five closed the self-funded insurance plan and opened a fully funded insurance policy with Anthem.

NOTE 12 - RELATED PARTY TRANSACTIONS

All related party transactions between Area Five, CMA and DDS have been eliminated in consolidation. Related party transactions include CMA and DDS liabilities payable to Area Five.

In addition, Area Five has gross development fees receivable and loans receivable from the following related parties at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Logansport Housing Associates LP	\$ 1,617,176	\$ 1,581,925
Chase Crossing LP	1,642,758	1,588,518
Hilltop Farms LP (Phase 2)	<u>1,368,740</u>	<u>1,334,441</u>
	<u>\$ 4,628,674</u>	<u>\$ 4,504,884</u>

(Continued)

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 12 - RELATED PARTY TRANSACTIONS (Continued)

Interest earned on these related party receivables totaled approximately \$124,000 and \$138,000 for the years ended December 31, 2012 and 2011. However, management has estimated that these receivables are not fully collectible, and allowances have been recorded as disclosed in Note 3.

NOTE 13 - GUARANTEES

Area Five was the operating deficit guarantor in one housing partnership agreement for the year ended December 31, 2012 and 2011. To provide assurance to the limited partners in this housing partnership, Area Five agreed to guarantee the operating obligations of the housing entity up to a certain threshold specified in the partnership agreement. In total, the guarantee amounts to \$52,000 at December 31, 2012 and 2011.

NOTE 14 - CONTINGENCIES

Area Five has been notified by the Indiana Housing and Community Development Authority that Area Five has potentially not met the requirements set forth in their grant agreement, and that Area Five is responsible for repaying \$270,000. While results of this claim and any possible future litigation cannot be predicted with certainty, management and their attorney believe that resolution of this matter will not have a material adverse effect on the financial statements of Area Five.

SUPPLEMENTARY INFORMATION

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2012

Federal Grantor/ Program Title	Federal CFDA Number	Expenditures	Amounts awarded to subrecipients
<u>U.S. Department of Agriculture</u>			
Rural Business Enterprise Grants	10.769	\$ 2,228	\$ -
Pass-through program: Indiana State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	303,854	-
Pass-through program: Indiana Department of Education Child and Adult Care Food Program	10.558	<u>116,212</u>	-
Total U.S. Department of Agriculture		422,294	-
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through program: Indiana Housing and Community Development Authority Community Development Block Grant	14.228	<u>24,604</u>	-
Total U.S. Department of Housing and Urban Development		24,604	-
<u>U.S. Department of Labor</u>			
Pass-through program: Indiana Family and Social Services Administration Senior Community Service Employment Program - ARRA	17.235	<u>16,746</u>	-
Total U.S. Department of Labor		16,746	-
<u>U.S. Department of Energy</u>			
Pass-through program: Indiana Housing and Community Development Authority Weatherization Assistance for Low-Income Persons	81.042	<u>102,640</u>	-
Total U.S. Department of Energy		102,640	-
<u>U.S. Department of Health and Human Services</u>			
Head Start	93.600	1,423,775	-
Pass-through program: Indiana Family and Social Services Administration Aging Cluster:			
Title III-A Administration	93.044	107,022	-
Title III-B Supportive Services	93.044	287,177	125,376
Title III-C Nutrition Services	93.045	508,848	-
Nutrition Services Incentive Program	93.053	<u>94,125</u>	-
Total Aging Cluster		997,172	125,376
Title VII Ombudsman	93.042	8,062	-
Title III-D Preventative Health	93.043	19,195	-
Special Programs for the Aging Title IV and II Discretionary Projects	93.048	19,853	-
Title III-E National Family Caregiver Support	93.052	119,642	-
Social Services Block Grant	93.667	257,918	-
Medical Assistance Program	93.778	229,581	-
Pass-through program: Indiana Department of Child Services Temporary Assistance for Needy Families	93.558	810,386	-
Pass-through program: Indiana Housing and Community Development Authority Energy Assistance Program:			
Low-Income Home Energy Assistance	93.568	875,201	-
Energy Assistance	93.568	<u>296,658</u>	-
Total Energy Assistance Program		1,171,859	-
Community Service Block Grant	93.569	377,419	-
Assets for Independence Demonstration Program (IDA)	93.602	<u>48,496</u>	-
Total U.S. Department of Health and Human Services		<u>5,483,358</u>	<u>125,376</u>
Grand Total		<u>\$ 6,049,642</u>	<u>\$ 125,376</u>

See accompanying notes to the schedule of expenditures of federal awards.

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Area Five Agency on Aging and Community Services, Inc., for the year ended December 31, 2012, and is presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.



Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Area Five Agency on Aging and Community Services, Inc.
Logansport, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Area Five Agency on Aging and Community Services, Inc. (Area Five), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Area Five's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Area Five's internal control. Accordingly, we do not express an opinion on the effectiveness of Area Five's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Area Five's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
July 16, 2013



Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Area Five Agency on Aging and Community Services, Inc.
Logansport, Indiana

Report on Compliance for Each Major Federal Program

We have audited Area Five Agency on Aging and Community Services, Inc.'s (Area Five) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Area Five's major federal programs for the year ended December 31, 2012. Area Five's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Area Five's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Area Five's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Area Five's compliance.

Opinion on Each Major Federal Program

In our opinion, Area Five complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Area Five is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Area Five's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Area Five's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
July 16, 2013

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.044, 93.045, 93.053	Aging Cluster
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

SECTION 2 - FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS.

None

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(a).

None

AREA FIVE AGENCY ON AGING AND COMMUNITY SERVICES, INC.
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

There were no audit findings or questioned costs in the prior year.